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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS



FOREIGN BROADCAST INFORMATION SERVICE

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16 March 1984

## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

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# FINANCE MINISTER REVIEWS ASPECTS OF 1984 STATE BUDGET

Sofia FINANSI I KREDIT in Bulgarian No 1, 1984 pp 3-11

[Article by Belcho Belchev, minister of finance: "The 1984 State Budget of the Bulgarian People's Republic"]

[Text] During the period since the beginning of the 8th Five-Year Plan, under the leadership of the Bulgarian Communist Party our people achieved great successes in implementing the resolutions and plans of the 12th Congress. The party's general Marxist-Leninist April line is being systematically followed. The socioeconomic policy is being firmly implemented and so are the fundamental directions and tasks on the further systematic building of a mature socialist society in our country. "Today's Bulgaria," as Comrade Todor Zhivkov emphasized in his remarkable lectures to the students and teachers of the Academy of Social Sciences and Economic Management, "is an advanced socialist state with developed industry and highly mechanized agriculture reorganized on a socialist basis; it is a state which enriches its domestic and the world's cultural values; it is a state in which everything is being built for the sake of the working man and in the name of man."\*

The achievements during the first 3 years of the current five-year plan are a vivid and categorical proof of the new important positions and heights reached in the country's socioeconomic progress.

The national income--the most synthesizing indicator of economic development--will be showing an annual average growth of 4.6 percent as compared to the 3.7 percent figure stipulated in the Law on the 8th Five-Year Plan. The volume of industrial output will be increased by 5.1 percent annually. Structure-determining industrial sectors and production lines, such as machine building, electronics, and the chemical and power industries, are developing at a considerably higher pace. Despite last year's poor weather conditions, the volume of agricultural output will show an average increase of some 3.5 percent annually.

\* T. Zhivkov, "Za Kharaktera na Sobstvenata Materialno-Tekhnicheska Baza na Zreliya Sotsializum--Problemi i Podkhodi na Neynoto Izgrazhdane v Bulgariya" [On the Nature of the Specific Material and Technical Base of Mature Socialism--Problems and Approaches of Its Building in Bulgaria]. Partizdat, 1983, p 10.

These stable rates of economic growth created conditions for taking a new major step in the implementation of the party's December program for enhancing the living standard of the people. The population's real income and social consumption funds are increasing. Wages are rising. In 1983 they were 11 percent higher compared to 1980. Health care has improved and science, education and culture are developing.

Such stable development rates ensured stable financial balances as well.

The significance of these successes becomes even greater if we bear in mind the substantial worsening of the international economic and political situation.

The Unified Plan for the Socioeconomic Development of the Country in 1984, which was passed by the National Assembly, retains the relatively high and stable pace of socioeconomic progress.

The national income will increase by 3.8 percent in 1984. Social labor productivity will increase by 4 percent and account for the entire growth of the national income.

The further development of the specific material and technical base of mature socialism will continue. To this purpose the Unified Plan for the Socioeconomic Development of the Country stipulates capital investments totaling 8,150,000,000 leva. They will be concentrated mainly on particularly important projects in material production and in the nonproduction sphere, which predetermine our future progress.

Industrial production will increase by 5 percent compared to 1983. The ratio between industrial and agricultural output will be 83:17, which is characteristic of industrially developed countries.

Progressive structural changes in industry will continue to be made. The rate of increase in machine building and electronics will 10.2 percent and in the chemical industry 8.9 percent in 1984.

The further comprehensive satisfaction of the steadily increasing material, spiritual and social requirements of the people will continue on the basis of the intensive and effective development of the economy.

Real per capita income, as the basic criterion of the living standard, will increase by some 2.5 percent in 1984. Wages as well will increase by about 2.5 percent. Social consumption funds will reach about 780 leva per capita.

In accordance with increased commodity stocks and services, retail trade is expected to increase by 4.2 percent. Compared to 1983, additional goods and services worth 820 million leva will be offered on the domestic market.

Concern for the further solution of the housing problem will continue. Another 72,100 housing units will be completed in 1984.

Thanks to the steps taken by the BCP Central Committee and the government to apply a new approach to planning, at its 10th session, held on 29 and 30 September 1983, the National Assembly passed the 1984 State Budget of the Bulgarian People's Republic.

The State Budget is consistent with the resolutions of the 12th Party Congress. It reflects the developments, practical approaches and instructions of Comrade Todor Zhivkov, the party's general secretary and chairman of the State Council, on further concretizing the strategic party course of comprehensive and all-round intensification of the national economy and the dynamic development of production forces and the entire society. Particularly important in terms of the budget was his concluding speech at the December 1982 BCP Central Committee Plenum and his remarkable speech at the national conference held in Varna on 30 May 1983 on drastically upgrading the quality of output and of all social activities.

The State Budget is based on the indicator of the Unified Plan for the Socio-economic Development of the Country and the updated state planning assignments of the economic organizations. This is a firm backing of the financial program for the proportional development of the economy and the implementation of the basic social measures and our obligations related to the international division of labor. These are minimal tasks which the party and the state set for this year's implementation.

These tasks neither entirely cover nor exhaust the possibilities and reserves of the national economy. They must be defined with the counterplans which are a vivid manifestation of the development and intensification of socialist democracy. With every passing day the working people realize the extent of the possibilities of the economic organizations, enterprises and brigades through counterplanning in which the entire collective participates actively. The approved budget includes all the characteristic features of a socialist budget. It preserves its unity and ensures the full receipt of income and its most economical and efficient utilization in outlays.

Total revenue will amount to 17,754,000,000 leva while expenditures will total 17,739,000,000 leva.

The implementation of the resolutions of the 12th Party Congress on comprehensive and all-round intensification will ensure stable revenue sources from the national economy. More than 92 percent of the revenue will come from the economic and other socialist organizations. The sources of such revenue are mainly the overall profits and income for social benefits.

At the 12th Party Congress and in his speeches and statements after it, Comrade Todor Zhivkov profoundly substantiated and clearly earmarked the role and significance of profit as the basic economic lever through which the state can influence economic activities.

The amount of profit is closely related to the quality of output and the volume and level of material outlays and labor productivity. The economical and efficient utilization of material-energy and labor resources ensures lower



production costs, higher profits and higher profitability. The main requirement is to assess properly reductions in production costs, turning them into a firm foundation for the effective self-support of economic organizations.

In 1984 budget revenue will include 8,716,000,000 leva in withholdings from overall profits of economic organizations, of which 4,630,000 will be a tax on profits and 4,086,000,000 leva will be a tax on turnover. This will account for 49 percent of the budget revenue.

We must also point out, however, that profit is also the base in shaping the financial foundations of the economic organizations. Increased profitability creates conditions for leaving to the economic organizations a significant share of the profits. Compared to 1983 a 22 percent increase applies only to withholdings of the monetary funds excluding the wage fund. Added to the funds remaining at the end of 1983, in 1984 the economic organizations will have financial resources in excess of 8 billion leva. This confirms yet once again the great opportunities created by the economic mechanism in developing the enterprise's own financial base in order to resolve problems related to expanded socialist reproduction, the development of scientific research and engineering-application efforts, the use of contemporary scientific and technical achievements and the social development of the collectives.

The cash funds of the economic organizations increased even further in the formulation of the counterplans, for the plans brought to light additional reserves for upgrading the efficiency of economic activities. The efforts of the economic organizations and enterprises have been correctly focused mainly on the thrifty and economic utilization of production resources.

Additional steps are being taken to strengthen economic influence on the more efficient utilization of such resources. The economic organizations and consuming enterprises will deposit as budget revenue 2 percent of the wholesale price of particularly scarce raw materials, materials, fuels, and energy; the economic organizations and enterprises in the Sofia territory and the okrug and industrial centers will make payments to the budget of 50 leva monthly per every additional person hired compared to the previous year.

Revenue from the turnover tax will increase by 5.8 percent and will directly depend on the volume, quality and variety of consumer goods produced and marketed and consumer services rendered the population. That is precisely why the volume of the turnover tax should be assessed not as the basic budget revenue item but as a manifestation of the enrichment and increased variety of goods offered on the domestic market.

Taking into consideration the requirements of the party and the state and the concern for steadily increasing the production and improvement of the quality of such goods and services, we must note that the possibilities in this area have not been exhausted. Their identification and utilization will also ensure greater budget revenue from the turnover tax.

The development of public production and the full employment of our working people created a solid base for social benefits.



In 1984 the economic and other socialist organizations will pay a total of 3,396,000,000 leva for state social insurance and the Mutual Insurance Council. This fund will be used for pensions, family supplements and other aid and compensations as stipulated in the Labor Code.

Income from taxes, fees and other payments by the population account for under 8 percent of the overall budget amount. They total 1,395,000,000 leva, of which 1,121,000,000 is general income tax. This tax is based on the population's income and no change is made in its procedure and the taxation system.

State Budget expenditures provide the necessary financial resources for the implementation of the tasks of the Unified Plan for the Socioeconomic Development of the Country and the further ascending development of activities in the material and nonmaterial areas.

The volume of outlays for financing the material area is based on the economic approach and the mechanism for its application and the party and state requirements on improving the efficient utilization of materials and labor and foreign exchange-financial resources everywhere and by everyone, along the entire reproduction process, in order to enhance the influence of the financial-credit system on the successful development of the economy.

The budget expenditures are directed toward financing sociocultural measures and developing some basic economic sectors.

In order to build a material and technical base consistent with mature socialism, the budget will allocate 2,350,000 leva to finance capital investments as stipulated in the Unified Plan for the Socioeconomic Development of the Country. The remaining capital investments will be financed out of the funds of the economic organizations and with bank loans.

The budget allocates 1,118,000,000 leva for financing the creation of productive capital in the material sphere.

As a result of the increased financial resources of the economic organizations and the increased profitability of their economic activities in 1984, the budget funds for financing capital investments are being reduced for virtually all economic organizations, with the exception of those related to metallurgy, mineral resources and the power industry. These are sectors of particular importance to the further proportional and harmonious development of the national economy, operating under specific natural conditions, for which reason the state must allocate budget funds for the creation of their necessary material and technical base.

The 1984 budget will include 1,232,000,000 leva to finance capital investments in the nonmaterial area, mainly the construction of housing, schools, hospitals, children's institutions and others.

The necessary budget funds, the funds of the economic organizations and the citizens as well as loans granted by the State Savings Bank have been secured to finance housing construction as stipulated in the Unified Plan for the Socioeconomic Development of the Country.

The huge funds allocated to financing capitalist investments call for making 1984 a crucial and decisive year in terms of the restructuring of the investment process. The policy which must be pursued in its implementation was defined at the 12th Party Congress. In his concluding speech at the December 1982 BCP Central Committee Plenum, Comrade Todor Zhivkov creatively further developed, concretized and indicated the most direct ways for the practical implementation of this reorganization.

New objectively necessary party and state requirements also predetermine the great problems which must be resolved in this area in 1984 by investors, builders and control organs.

It is also necessary to ensure further improvements in the organization of the utilization of the funds of economic organizations used for capital repairs. They must be concentrated more extensively also on partial reconstruction and modernization of existing productive capital and modern technology.

The role and significance of science increased even further in terms of laying a material and technical foundation consistent with mature socialism. Science must resolve problems related to enhancing the technological standards of the production process on the basis of comprehensive automation and mechanization, utilization of domestic and foreign experience and application of advanced technologies. A total of 681 million leva will be spent in resolving these problems and in carrying out scientific research and application, most of which will come from the funds of the economic organizations. The budget will allocate 180 million leva for basic scientific research and for resolving problems of intersectorial and risky nature, the financing of which exceeds the possibilities of the individual economic organizations and ministries.

Social consumption funds are a vivid manifestation of the meaning and basic content of the policy followed by the party and the socialist state of "everything for the sake of man and everything for the good of man." In 1984 they will total nearly 7 billion leva. The allocation of such a huge fund under circumstances marked by an increasingly worsening and conflicting international situation, the aggravation of the energy crisis and the considerable increase in the prices of raw and other materials and equipment and the particularly adverse weather conditions, confirms the strength, vitality and humaneness of the socialist system. Thanks to the party's April social policy and its specific manifestation--the December program--social expenditures grow, living standards become increasingly higher and the socialist individual is developing more and more comprehensively.

Budget allocations for sociocultural measures to be taken in 1984 will total 5,972,000,000 leva (excluding outlays for basic repairs and furnishings). Compared to 1983 and excluding outlays for pensions, the 1984 funds are 3.1 percent higher. They ensure the implementation of the planned sociocultural assignments. However, the possibilities have not been exhausted and will be manifested in the elaboration of the counterplans and budgets and the implementation, together with the economic organizations and people's councils, of

social, urbanization and other measures of common mutual interest related to the comprehensive development of the social and technical infrastructure of the corresponding conurbation systems.

The funds allocated for education ensure the further development and maintenance of the material base and the current maintenance and development of education. Such funds are broken down into kindergartens and unified secondary polytechnical and other schools including interscholastic centers for production training, vocational schools, activities aimed at improving the conditions for training and realization of potential, and others.

In accordance with these tasks the increased number of seats in full-time kindergartens and the increased number of seats in the unified secondary polytechnical schools, training-vocational complexes and semi-boardng houses and students in higher educational institutions will cause a 4.2 percent increase in educational costs in 1984 compared to 1983.

Also increased will be outlays for health care, physical culture, sports and tourism. This guarantees increases in the number of hospital and sanatorium beds and places in social care institutions in accordance with the Unified Plan for the Socioeconomic Development of the Country. In order to ensure further improvements of the population's health and ability to work, funds have been allocated for purchasing new and modern medical equipment for diagnostic and treatment purposes, so that skilled medical aid will come even closer to the population in the conurbation systems of the fourth and fifth functional types.

The party and state requirements on upgrading the social and economic effectiveness of social consumption funds may be manifested best in the area of health care through the use of the allocated funds for further improvements in preventive care. In this connection, health services must come even closer to worker collectives and the needs of the conurbation systems as a whole must be met more fully.

Efficiency will increase greatly if timely prevention reduces the need for hospitalization. To this effect we must also use the funds allocated for the development of sports and tourism.

The 1984 budget for financing culture will be 3.4 percent higher than in 1983. Such funds will be used for the further development of television and radio, libraries, museums, art galleries, cultural monuments and other cultural activities and measures. This will help the fuller implementation of the possibilities for the spiritual development of the nation and the implementation of the comprehensive programs for the nationwide aesthetic upbringing of the people.

Culture is increasingly developing in accordance with the requirements of the economic approach. The income earned from publishing, book distribution and the expansion of the printed base in the country cover the main expenditures for the further development of theaters, opera and all other cultural activities.

In 1984 the party and the state will show greater concern for ensuring a peaceful old age to those who have terminated their labor activities after reaching a stipulated age and helping temporarily incapacitated people. In order to ensure the necessary funds to this effect, the 1984 State Budget allocates 3,186,000,000 leva for social insurance. Of this 2,240,000,000 will be for pensions. Compared to 1980, the average monthly pension this year will be 24.4 percent higher. This increase is a fruitful result essentially of the party's policy of periodically making pensions consistent with changes which take place in the income of the employed population and increasing the lowest pensions to half the minimal wage, and the result of the demographic factor. It is expected that in 1984 the number of pensions will be increased by 30,000 as a result of the increase in the non-able-bodied population.

In accordance with the specific requirements of the population 947 million leva have been allocated for various benefits. These funds will be used for aid related to encouraging the birthrate--one-time payments for giving birth, monthly supplements for children, compensations for pregnancy, giving birth and raising small children and compensations for various types of temporary incapacity of workers, employees and cooperative farmers.

The development of the territorial units in 1984 will continue in accordance with the principles of the economic approach. In their work they will apply a number of self-financing elements. These conditions ensure possibilities of an even more harmonious combination of territorial with sectorial economic development. Furthermore, the use of self-financing will increase the material incentive and responsibility based on results and efficiency not only directly related to the activities of the conurbation system but of all economic organizations and enterprises on its territory. In addition to the payments made so far to the budgets of the people's councils from withholdings, totaling 3 percent of the balance sheet profit and all profit shown by the economic organizations under local jurisdiction, the general income tax and the local taxes and fees as well as some non-tax payments, starting with 1 January 1984 the tie between the development of conurbation systems and the results of the activities of enterprises on their territory will be strengthened significantly. Enterprises and economic organizations will make payments to the budgets of the okrug people's councils totaling 5 percent of the general revenue from the Expansion and Technical Improvements Fund. The executive committees must make skillful use of such funds in expanding and increasing the kindergartens and their capacity, completing the infrastructure of residential complexes and carrying out other measures related to education, health care, culture and social development of conurbation systems.

Together with the economic organizations, the people's councils will be able to resolve more purposefully a number of problems related to social activities, urbanization and other measures.

The State Budget will allocate to the budgets of the people's councils 3,514,000,000 leva. Most of the money will be to finance health care and social benefits, schools, culture and other sociocultural measures.

The funds from the budgets of the people's councils will be used to meet expenditures related to settlement sanitation, maintaining current repairs and reconstruction of water mains, streets, bridges, and others.



The 1984 State Budget provides for the necessary funds for the implementation of the BCP Central Committee and Council of Ministers decree on the accelerated socioeconomic development of conurbation systems of the fourth and fifth functional types, the border areas and the Strandzha-Sakar area. In addition to the direct allocation of funds, the respective people's councils will be granted some of the budget revenue. The conceded turnover tax alone will be more than 10 percent higher in 1984 compared to 1983 and will total more than 60 million leva.

Funds for the further development of such conurbation systems must be concentrated not only on social gains. The main thing is for them to be used in developing high-standard productive capital with a view to ensuring the full employment of the population in the respective conurbation system mainly on the basis of increasing the volume of agricultural output, including the development of animal husbandry.

The economic approach and the mechanism for its application create good conditions for displaying initiative and creativity in economic activities and for competition among economic organizations. They must be carried out with the strictest possible observance of socialist legality. Hence the great tasks facing the financial control organs: engaging in active prevention efforts, promptly disclosing all violations of the law and taking quick measures for their elimination.

This year our people will celebrate with legitimate pride the 40th anniversary of the socialist revolution in Bulgaria. Little time also remains before the holding of the National Party Conference which will deal with problems related to labor quality, discipline and productivity. Its resolutions will provide a new powerful impetus and create even more favorable conditions for the intensive development of the entire national economic complex and the even greater growth of the national income through further decisive improvements in the utilization of productive capital and the most economical utilization of material, manpower and financial resources in order to increase the returns from each leva spent.

The new objectives and tasks related to the intensive development of all stages of the expanded reproduction process legitimately call for the systematic application of the economic approach and suitable mechanism and the urgent implementation of the Leninist principles of socialist management. These principles, including the comprehensive regimen of savings, are a powerful weapon wielded by the working people in the building of socialism. Achieving high efficiency, savings in excess of state planning assignments, and improving the quality of output in accordance with the requirements of the people and the domestic and foreign market are objectively determined directions leading to a further socioeconomic upsurge.

During 1984, under the leadership of the BCP, one more large step will be systematically taken in the proper implementation of the resolutions of the historical 12th BCP Congress of building a developed socialist society in the Bulgarian People's Republic.

## UPDATING OLDER MACHINERY, EQUIPMENT

### Modernization Saves Investment Funds

East Berlin PRESSE-INFORMATIONEN in German No 144, 9 Dec 83 p 2

[Article by Dr M. Thalemann, deputy minister, Ministry for Construction of Heavy Machinery and Equipment]

[Text] The success of our economic strategy requires an increase in the efficiency with which we use the instruments of production. In this connection one must determine the role which it is possible for the older machinery and facilities to play in the growth of productivity. Because the level of usefulness of older equipment is not fixed but can be enhanced through modernization, for example, through the use of modern control systems or through better measuring and testing techniques and in conjunction with industrial robots. An example of this is the technological unit consisting of two turning machines and an industrial robot which is to be found in the parent plant of the "Herbert Warnke" VEB Transformer Combine in Erfurt. As compared with earlier individual machines this unit made possible an increase in industrial commodities production amounting to 1.3 million marks and raised worker productivity to 180 percent. In addition, three employees were freed to perform other tasks.

Similar achievements were possible at the Hohenstein VEB Equipment Plant: a vertical milling machine was modernized by constructing a device for palette changing which employed a ball-and-socket gear shift. There was a resulting increase in labor productivity up to 155 percent.

### Reduced Investments and Material

Experience has shown that the cost of modernization is from 30 to 70 percent less than the cost of comparable new machines. To a large extent it is possible to save on investments and material. These advantages should be exploited.

For the combines and factories we have set the task of so modernizing productive equipment that the individual machine becomes 30 percent more productive on the average, its quality level is improved by at least one to two quality levels, availability and automation level are increased and useful life increased by from 4 to 6 years.



Every combine and every factory is itself responsible for the modernization of its machines and facilities. Therefore there results a substantial enhancement of maintenance and in the construction of plant rationalization equipment and there is also an effect upon general repair capabilities. In particular during modernization decisive weight attaches to the construction of plant rationalization equipment. For example, the Tisora VEB Plant for the Rationalization of Textile Machines, in Karl Marx City, developed a production line for the complete fabrication of a sewing machine arm. As a result it was possible for the Wittenberge Sewing Machine Plant to release 34 employees this year in addition to saving 110,000 hours of work time.

In the Koenigsee VEB Machine Tool Factory an integrated manufacturing section for the complex rationalization of spiral-drill production was set up; this was with the support of the plant's own rationalization equipment and with the support of the Schmoelln VEB Plant for Rationalization of the Machine Tool Industry. In consequence of this modernization six employees were acquired for other tasks and 130,000 fewer hours of work time were required. Labor productivity doubled.

In general we have undertaken by 1985 to increase over 50 percent the modernization taking place within the entire area of plant rationalization equipment construction.

#### Now Available: Techniques of Modernization

In addition to the modernization of our own machine tool stock we have naturally also the task of supporting the modernization of machine tools and processing machinery throughout the entire national economy by means of suitable supplies of information. Therefore our machine tool manufacturers will prepare by the end of this year and make available to machine tool operators certain documentations regarding methods of modernization. In such documentation the user can locate the modernization technique suitable for him and either order it from the machine producer or supply it himself. Thus the VEB Textima Combine furnishes to light industry structural components with which 200 to 300 shuttle-type textile machines can be converted to claw-type textile machines. The resulting labor productivity for the user is increased to 200 percent.

The goal for the coming years in our area of industry is to secure the requisite increased productivity for our national economy by using fewer new machines and facilities in consequence of the modernization of existing equipment. This means that every combine, every plant must seek opportunities for self-education in the demands of modernization for those workers engaged in maintenance and in the construction of in-house rationalization equipment. Both socialist competition in these domains and also the initiatives of the rationalizers and innovators should especially be oriented toward the effective carrying out of modernization measures.

## Automation Enhances International Competitiveness

East Berlin BAUERN-ECHO in German 27 Dec 83 p 2

[Unsigned article]

[Text] Berlin (ADN). In the coming years the metalworking industry of the GDR will be substantially rebuilt and modernized. This has been pointed out by Rudolf Heinze, the deputy of the chairman of the State Planning Commission. He says that the complex automation involved will increase the capacity of the metalworking branch of industry to react quickly to increasing demands, to carry over into production rapidly any new scientific-technological results, to configure the production profile flexibly and thus substantially increase export power.

While in the fifties and sixties it was possible for products of the metalworking industry to maintain themselves for 10 to 20 years in the world market this time interval has been reduced in the beginning of the eighties to 4 years on the average. Rudolf Heinze has stated that internationally only those producers would have an opportunity to expand and hold their positions who are capable of renovating 40 to 60 percent of their products annually.

Rudolf Heinze declared that this development requires that the technological level of production be rapidly raised. He said that the use of microelectronics and the technology of industrial robots would be decisive for the development of these technologies.

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HUNGARY

ANTAL INTERVIEWED ON FURTHER REFORM MEASURES

Budapest MAGYAR HIRLAP in Hungarian 10 Feb 84 p 7

[Article by Ilona Kocsi: "The Question Marks of Economic Management--Conflict of Interests. Interview with Laszlo Antal--If There Is No Reform There Is No Way Out"]

[Text] There are important things in the making, the Hungarian national economy is about to expand its reform. There was a similar period before 1968, although there are also some significant differences. Back then the introduction of new ideas was backed by a prospering economy and steady development under conditions of an upward world economic trend while now we are facing payment problems and the conditions of a barely growing production. We are talking with economist Laszlo Antal, head of department at the Finance Research Institute about the possibilities of improving our economic management.

[Question] In one of your earlier articles you wrote: we must admit not only to the past at any given time but also to the present. What did you mean by this? Did you mean to say that we have a relatively good understanding of the accomplishments and mistakes of the past but we mistify the present?

[Answer] Yes, we do that to some degree. We accept every decision made in the present as rational and correct. The past is entirely different: there we may find some problems. Even though in order to be able to identify with something we must also be acutely aware of our own limitations, understand the compromises it took to make a particular decision and be aware of their advantages and disadvantages. Self-deception is not the best of tactics...

Self-Deception?

[Question] Are you sure that this is self-deception? Is it not just that we already have a certain concept of the past whereas we tend to treat the present with an understandable bias?

[Answer] This is one way to explain views which put the present in a better light. A more likely explanation, however, is that we

lack self-knowledge. The performance of an economy, its realistically identifiable goals depend not only on the modernity of its machines, the technical preparedness of its agriculture or even on its raw material supplies. At least as important is the extent to which its decision-making system has become bureaucratized, the degree of interestedness among those involved in production and whether there is adequate mobility that can ensure, with some degree of certainty, that sooner or later everyone will find his proper place--even, perhaps, at the price of failure. If we fail to recognize or if we underestimate the weaknesses of our system of management then this may create the illusion that now we have an even greater freedom of movement and that our difficulties are not as great as they really are--this is where the notion of a mistaken past and a problem-free present originates.

[Question] In the Hungarian economy--despite our obvious difficulties--there have also been some positive developments which nevertheless prove that we have recognized the need for rapid change. Here I am thinking mainly about such enterprise-related organizational changes as our small businesses.

[Answer] Yes, it is a fact. At the end of the 1970's we had to recognize that isolating ourselves from the foreign market would bring serious consequences. Adjusting became a matter of vital importance. The only problem was that during the preceding 2 to 3 years our hard-currency credit stock had doubled. Our leaders took appropriate action that led to significant changes in our price system and our organizations, and small businesses were given greater freedom to operate. At the same time, a whole series of restrictive measures were put into effect to regulate enterprise management and significant withdrawals had to be made. Yet nothing really changed. While the germs of favorable tendencies did appear, their development has come to a temporary halt. Our old interest relations still continue to make themselves felt, under the pressure of strict controls our hidden reserves have still not been allowed to surface and we are still facing a manpower shortage. Hence I feel that our economic policy of recent years has been more of a partial success, for in most cases our regulators have been unable to fulfill their basic functions, namely to influence enterprise intentions. In this situation it has become clear to our leaders: either we make some basic changes soon in the way our economic mechanism and management has developed or we will be inevitably pushed to the side.

#### Distrust

[Question] In what form does the weakness of our regulators manifest itself?

[Answer] First of all: they have failed to set the self-regulating mechanisms of the market in motion. During the history of our planned economy so far the market has only partially functioned

and its effect has been limited to certain sub-areas. The comprehensive system of hierarchic relations has been preserved and personal connections have been allowed to significantly influence the situation of certain enterprises. Another serious problem, in my opinion, is that our present regulators have been unable bring out individual initiative; only in the private sector have we been able to discern some changes in this regard. The enterprise sector which constitutes the greatest part of our economy and provides the bulk of our national income has been at a virtual standstill. With one or two exceptions, the idea of a "venturesome enterprise" has remained more of a wishful dream. I feel, furthermore, that we have also been adversely affected by the fact that our social controls have been more theoretical than practical in their application.

[Question] So right now we are about to expand our reform. In recent years the word "reform" has been a frequently used and somewhat abused phrase...

[Answer] Indeed, every change or minor adjustment we have made we have labeled as a reform. What is an even bigger problem, however, is that the promises that were made often have not materialized. Hence we can sense a certain degree of distrust toward every change we make which occasionally manifests itself in a kind of passivity which in itself presents an obstacle to the consistent assertion of central directives. As I have already mentioned: in the present critical period of our economy there is no real choice. For being pushed to the side cannot be called a choice. If, however, we want to succeed in making radical changes then it is not enough to count on winning over our enterprises and population after the fact. Their confidence, their willingness to identify with our tasks and their active participation must be won in advance...

#### An Actual Say

[Question] And what can you promise in return for this trust? If a person sees that while for a few years he may have to live under more difficult conditions things will eventually get better, he will accept the situation. After 1968 our expectations eventually came true: our standard of living rose. But now? Given our stagnating, in fact according to some even declining standard of living can we promise any short-term improvements?

[Answer] Today we face an entirely different situation, for there is a much greater need for change. We cannot claim that as a result of our reform we will become collectively rich within just a few years; all we can promise is that we will not become collectively impoverished. If there is no reform there is no way out. This may sound like an extreme view but this is the bottom line. We must finally take notice of our economic realities. This, of course, does not mean that we only expect people to make sacrifices and



that we do not intend to reciprocate for their trust. We do! In the future--as a result of our anticipated organizational changes--workers will have a greater, that is to say more real voice in the management of our enterprises, while the role of personal connections will diminish in our economic life. The expected changes may be damaging to the interests and prestige of our state and social apparatus but this is expected to be more of a local phenomenon, for at the top levels the necessity of this type of change has become unequivocal...

[Question] Forgive me for interrupting, but if, for example, I were in the position of one of our leading organs I may try at all cost to hang onto my post and the privileges which it presently entails. This is what my personal interests would dictate...

[Answer] Naturally, there are such interests and in most cases they have meant different approaches to real problems. Such interests have always existed and it is precisely their appearance and the occasional conflicts among them that have ensured our progress. These would not be worthwhile to try to suppress; rather we should discuss and persuade. In addition, we are also certain to encounter some temporary manpower surplusses, meaning that some people will have to look for 2 or 3 months to find a new place of work after they--for various reasons--have already left their old jobs. Our present sense of security will diminish.

Who Will Pay the Price?

[Question] Well,...what you are saying is not very reassuring. Especially if we consider that we are not just talking about a 1 or 2 year program. Which of course means that it will also be a good few years before we can expect any results. And what will happen until then? Who will pay the price for our present economic difficulties?

[Answer] Improving our national economic balance is a top priority task even if it means having to do it at the expense of domestic consumption. By improving the mechanism, however, our goal is to ensure that this can be achieved not only by asking people to accept sacrifices but also by mobilizing the energy reserves of our entire society. So far we have only "tapped" our enterprise resources but here we have already run out of excess reserves. Moreover, we may even be lacking the funds necessary for its modernization and development. Now it is our population's turn. At one time we had to protect and safeguard our consumer prices from every increase. However, back then this also meant an increase in the signs of deficiency. We had to decide: we either accept some inflation or resign ourselves to living with our deficiencies. In my opinion the former is the more desirable solution. We have gotten used to having enough goods and an adequate selection in our stores, so we already have enough to protect. If



prices were to remain constant sooner or later we would have shortages. The two are closely related.

Who should pay the price for our deteriorating economic situation, you ask? I or you, for example, or anyone with a guaranteed or relatively high income. But under no circumstances anyone whose income is low. Those operating small business should also be careful. Should their production be cut back for some reason that would affect everyone. They are also indispensable for providing an abundant supply of goods and for ensuring our comfort. Not to mention the fact that their income is already uncertain as it is, while in the state offices and enterprises it is ensured. I would not like to be an entrepreneur...

9379

CSO: 2500/219

# AGRICULTURE'S BENEFITS TO ECONOMY MERIT CONTINUED SUPPORT

Budapest NEPSZABADSAG in Hungarian 7 Feb 84 p 3

[Article by Erno Csizmadia, academician: "Tied Together by a Thousand Strands, the Unity of the Large Agricultural Concerns and the Small Producers"]

[Text] We have repeated many times, and no one argues out in the open about the point that households and complementary farms play an important role in our agricultural production. Small producers are responsible for more than a third of the value of agricultural production. It follows, therefore, that the fate of Hungarian food supply and export has to a large extent depended for the last twenty years on the management of the agricultural cooperatives, the state farms and the companies of the food industry, i.e., large scale production.

This is true even as far as the development of small scale production is concerned, since in agriculture, household and complementary farms are dependent on the cooperatives in common and on the large concern management of the state farms; they are tied to these by a thousand strands. This practice is not a diminution of small scale production, rather it is a result of a purposeful agrarian policy that reflects exactly the real situation.

The MSZMP [Hungarian Socialist Workers Party] summarized these policies in its agrarian policy theses of 1957 and has consistently followed them, occasionally adjusting them to the changing circumstances, correcting the occasional mistakes and blunders, as for example in the middle of the seventies. The essence of this policy is that multiple sectors and a large variety characterize the agrarian corporate structure.

Within this structure, the basic supports of Hungarian agrarian development are the state farms and the agricultural cooperatives. 1. The economic partnerships and the joint companies of both the small producers and small entrepreneurs and the large concerns are developing. 2. Based on the definitive dominance of the large concerns. Therefore, the supporting foundation of Hungarian agricultural successes is large scale socialist production, of which the household and complimentary farms, as well as the company-cooperative joint ventures are at the same time organic supplements, e.g., the productive systems which have spread out over a wide circle in the last decade.

## Urgent Task

It logically follows that our agrarian policy and practice has to pay a lot of attention to the expansion and development of large concerns, if we wish to move forward in the near, or for that matter in the distant future. The laying of the foundations for the food supply and the export of the second half of the 1980's as well as for latter years urges us to place the above fact in the forefront of our considerations nowadays. Also because of this fact, the problem of encouraging or holding back development which characterizes our whole people's economy must be translated quickly into activity in agriculture. In fact, this must be done primarily with the development of large scale concerns, since the development of the smaller ones depends on these. It would be a great loss if the considerations concerning the above would be drawn out for many years.

Experience has shown that the agrarian sector is only capable of taking on extra tasks, as it has in the past few years, if we create the necessary elementary prerequisites by providing the technical-technological foundations and the required financial incentives. If there were no need for increasing agricultural production, then of course the situation would be difficult. Reality requires exactly the opposite, not only in terms of domestic supply, but also as far as export is concerned, and thereby in the establishment of a balance of trade payments.

Leaving our advantageous agricultural resources unused would be an omission that could not be replaced within a reasonable time by any other type of development. Therefore, we do not have a large variety of choices. Even if our industries appreciably increased their export in the future, certainly a requirement if we are to make our way out of the present situation, they would have to serve the expansion of our total export in the interest of improving our standard of living and the process of a balanced growth; they would not be able to substitute for agricultural and food industry export.

The occasionally voiced concerns that an agrarian policy that increases our exports may take away developmental resources from industry and industrial export are unfounded. History and the facts show exactly the opposite. As a result of the increase in agrarian export, in the past decades our sources of development rather than contracting have expanded, and that includes the sources of industrial development as well.

What are the most essential prerequisites of large scale development in agriculture to be outlined here? An obvious answer to this question is that better financial-technical foundations must be provided for reaching food production, supply and export goals, for which, depending on the development of our resources, there may be opportunities and at the same time absolute needs.

## The Human Factor

Knowing our economic hardships, I would not emphasize the above, since the experiences of the past decades unequivocally show that the key to our progress in agriculture as in other fields is the rational management of creative human

energies. There are many components of this, but above all it is exceptionally important to give financial and moral recognition and encouragement to good work tied to management results, to improve the working and the living environment, the health care and social welfare of workers and to raise their and their leaders' level of schooling and the level of their cultural and professional training.

The individual components mutually influence one another, and the domestic experiences of the latter decades also show that the key to the construction of large scale plants in agriculture is the financial-moral appreciation of workers and managers and the political confidence which can be built upon this.

In our large plants, since the middle of the 1960's, using the varying local forms of individual and group enterprise, it was by and large possible to combine diligence and knowledge with the results of management and thereby with the social interest. This was all served well by the realization of the economic mechanism reform, the introduction of economic independence, along with the technical instruments and the financial resources.

Our large agricultural plants still give preference today to practical goals and to local potential, and to solutions which best suit the organizational and incentive levels of the production forces, especially mechanization and specialized training. They make an effort to harness individual, small group, and in many cases family interest and initiative coupled with management results in the interests of the larger community.

I do not say that this has been accepted in every plant and is being carried out well, but where it has been, it has led to generally good and occasionally spectacular results. It is an experience worthy of attention, however, that when central regulations are inflexible, the hands of the best people are tied.

Recently, there have been more and more vehement arguments about the system of incomes regulation, which has missed its goal in the 1980's in agriculture as well as in other areas, and which, aside from the experimental compensation for work allowed in roughly 100 large plants, has turned out to be more a regulation of the loss of income than a financial incentive. There is a tremendous difference between the two. Present income regulations discourage the entrepreneurial spirit and initiative even where favorable conditions for these do exist.

Financial interest and with it more or less successful management depends in practice on two criteria: on the one hand work compensation (wages), distributional forms and financial incentive systems used in companies and cooperatives, in which decisions are made by local managers; on the other hand, government regulations affecting the formation and use of company-cooperative income.

## Taking Advantage of Independence

Practical experience supports the contention that if we wish to get out of today's economic problems, then we must give local managers greater independence in the formulation of company-cooperative wage policies and the development of local incentive systems. This task cannot be accomplished without the substantial reformation of the regulation of income loss as well as of the views and practices connected with it. A possible method which presents itself is one in which the majority of income growth depends on the expansion of the production of those goods which can be sold well and the taxes are to be levied on the incomes which are lost as a result. In other words, rational regulation must principally burden income which is tied to results and which is lost, not hinder the creation of income which has been earned. When this happens the other way around, as is the case today, then financial incentives lose their strength.

Not only must the government act. The methods which have been successfully tried out by the best must be applied as soon as possible in all large agricultural plants. The essence of this is the further development of the system of internal direction according to the changing times and today's requirements. The necessity to do this has been recognized at ever more farms. At the state farms and the cooperatives, the company divisions, plant units, workshops, sections, specialized groups and other small enterprise forms with independent responsibilities in basic local decision-making and a direct interest in profitable management are gradually gaining ground.

In an oversimplified way, these are called self-accounting units by the news media, but their activities are not limited to self-accounting in the old sense of accounting methods. As far as the essence of their character is concerned, they are company-cooperative units which are independently managed, have independence of action in specific decision-making and have a direct interest in the results of their activities, and they are also self-accounting units from a strictly accounting point of view. This solution provides a wide range of opportunities for local initiative and for entrepreneurs directly interested in productivity, and thus deserves all possible support.

Complimentary activity is a well known and valuable source of agricultural development. Almost every cooperative and state farm owes much of its profits to the industrial, construction, service and trade branches. It is a positive sign that more and more of these activities are gaining acceptance. There are many components, therefore, to the successes of our agriculture and continued advancement requires many levels of attention. One thing is certain, we will have to continue taking advantage of cooperation between large and small scale plants, profiting even more from the many possibilities.

12489

CSO: 2500/214



## FINANCE MINISTER BRIEFS PRESS ON 1984 FISCAL POLICIES

Warsaw TRYBUNA LUDU in Polish 25 Jun 84 p 2

[Article by Jan Markusz: "It Is Necessary to Economize"]

[Text] Minister of Finance Stanislaw Niecekarz briefed journalists on the main lines of the state's finance policy in 1984 at a press conference on 24 January.

Last year's economic upswing, which involved a growth in production and national income (the latter for the first time in several years), improved the country's budget balance. The deficit, planned for 150 billion zloty, was effectively kept down to 77 billion zloty.

The principles of the 1984 finance policy are to contribute to improved discipline in the national economy. This is even more necessary as the state budget will continue to be unbalanced. The planned 1984 deficit amounts to 130 billion zloty. Minister Niecekarz said that the growing deficit is a result, among other things, of earlier pay and welfare decisions (e.g., those related to the Teachers' Charter), which have to be honored. Besides, subsidies for essential goods and services, i.e., housing, transportation, etc., have increased. All in all, as much as 55 percent of the budgetary spending involves welfare expenses.

Minister Niecekarz announced a review of the financial performance of all enterprises. The entire new system of taxes, credits, Labor Redeployment Fund (FAZ) contributions, depreciation allowances, concessions and preferences has been subordinated to stimulating the production of indispensable consumer and export commodities, reduction of costs and raising product quality. In 1984, private businesses and Polonian companies will also have to demonstrate that they are not shifting their unwarranted costs onto the consumer.

The consumer market is to be balanced, on the one hand, through stricter enforcement of taxation policies, and on the other, through increased production and supplies of merchandise.

The finance minister announced that a proposal will be prepared concerning a relaxation of the income-equalizing tax levied on employees of the public sector. Although the yearly tax-free ceiling of 300,000 zloty will be maintained, the progressive taxation rates will be relaxed by about 50 percent.



With regard to private businesses, Polonian companies and franchise dealers, the same tax system will be applied as in 1983. However, these groups of entrepreneurs will have to produce more detailed records of their revenues, and the tax law will be more strictly applied to them.

Poland's balance of payments has a serious impact on the country's economic situation, Nieckarz said.

Trade with socialist countries increased considerably last year. Export revenues amounted to 7.3 billion transfer roubles, but imports from these countries cost 7.8 billion roubles. Last year's trade deficit, amounting to 500 million roubles, will increase to 700 million this year. "Even so, exchange with other Comecon countries follows a normal course. Moreover, the Soviet Union is going to grant us a loan," said the minister.

The situation with regard to exchange with capitalist countries is different. It is true that a surplus to the tune of \$1.1 billion was recorded in trade with that group of countries in 1983, and this year a \$1.5 billion surplus is planned, but this results not so much from increased exports, as from import cuts. It is planned that in the current year, Poland will export goods worth \$6.2 billion in order to import \$4.7 billion worth of goods. Unfortunately, Poland's indebtedness is growing. It is estimated that in the current year, it will amount to \$29 billion.

The situation is compounded by economic restrictions imposed by the U.S. and other Western countries. Debt rescheduling negotiations have only just begun with commercial banks. The outcome of these negotiations is difficult to predict.

One thing is obvious--Poland cannot expect new Western loans. Poland can buy the indispensable raw materials, components, spare parts, etc almost entirely for the cash earned from exports. The one conclusion to be drawn from this fact is that only profitable exports can help ease Polish difficulties and speed up economic recovery.

CSO: 2600/692

POLICIES THWARTING SMALL BUSINESS GROWTH RAPED IN COALITION PARTY WEEKLY

Warsaw TYGODNIK DEMOKRATYCZNY in Polish No 3, 15 Jan 84 pp 4, 5, 21

[Article by Jan Brzeski: "Small Businesses: What They Are and What They Should Be Like"]

[Text] In industrialized countries, enterprises employing less than a hundred people are considered to be small or medium-size. By this criterion, about 45 percent of all French businesses are small ones. Their share in the total turnover of goods exceeds 37 percent and they account for over 25 percent of exports. In Italy, small businesses make up 90 percent of all firms. They employ 60 percent of the labor force and produce about 50 percent of the national income. They account for 22 percent of exports, and as much as 40 percent of all investment. In Great Britain, 20 percent of those employed in the economy work for enterprises employing up to a hundred people, while in Belgium, enterprises of this size employed about 64 percent of all industrial workers in 1970.

Yet in Poland, enterprises of this size gave work to less than 10 percent of the total workforce in the public sector in 1982, while enterprises employing up to 50 people accounted for a mere 2.7 percent. In the same year, private trades employed 476,000 people, including 332,000 engaged in manufacturing. Small wonder that Polish small businesses and private trades produced a mere 3.4 percent of total industrial output.

It is worth remembering that before the recession small businesses produced 25 percent of consumer goods. Even now they could produce much more were it not for difficulties in obtaining supplies and the lack of suitable assistance for this sector of the economy--a sector which is capable of playing a major role, if not in overcoming the crisis, then at least in improving the supply of consumer goods, thereby easing people's everyday hardships and checking inflation. The level at which small businesses utilize their productive capacity is below the national average, being no higher than 60 percent. Private trades make better use of their capacity but, like all small businesses, their plant needs to be modernized and enlarged. The haphazard implementation of the economic reform and the disregard shown for resolution No 112 of the Sejm are the main obstacles here.

The problem of modernizing small businesses could be resolved with almost no additional investment were it not for the fact that certain ministries are

determined to sustain enterprises which are economically moribund, incapable of operating without state subsidies, badly organized and usually engaged in the production of shoddy goods or things nobody needs, which are absolutely unsalable anywhere because of these enterprises' high total costs and the poor quality of their products. Were these bankrupts in all but name not kept alive by subsidies, i.e. at public expense, there would be enough machinery and equipment available to supply all of the more enterprising small manufacturers, now condemned to stagnation. There would also be more materials to produce things which are really needed, and the artificial shortage of manpower could be solved as well.

Management practices constitute one more paradox of the reform. While state enterprises now enjoy a certain autonomy, other enterprises, especially cooperatives, are still shackled by centralism, and encumbered by directives from above, with no freedom to display their own initiative.

The essence of this paradox is that the forms of organization which should normally be the most democratic have become a bastion of centralism. Thus, while private trades are intensifying their activity, the cooperative movement faces stagnation or even a slump. This can clearly be seen in export production. Despite obstacles, private trades have retained their position in capitalist markets. All the more ambitious private manufacturers recognize that the present situation, with shortages creating a demand for almost everything, will not last forever. So they are taking pains to ensure the quality of their products, attempting to modernize them as far as is possible and trying their luck--with considerable success--on difficult foreign markets. Unfortunately, the cooperative movement, which has limited itself to exploiting current opportunities for producing highly-priced trash, has been, as reports from "Coopexim" indicate, almost totally dislodged from capitalist markets and is doing steadily worse on socialist ones. The apathy currently shown by the cooperative movement, along with its tendency to add more and more zeros to price tags, will get it nowhere. There seems to be no concern for quality standards, no search for more attractive lines of production and no attempts to enter into cooperation with foreign customers.

The old policy of increasing centralization produced results which are still with us today. It proved particularly damaging to small businesses, which have an excellent and long tradition and good prospects for development using local raw and intermediate materials. The Sejm's resolution No 112 was designed to give them a new lease of life. Bureaucratic pressures have put this resolution into suspended animation. However, it is not too late to break the bureaucracy's supremacy and to mobilize the energies of small businesses, stimulating them to produce more consumer goods, and particularly offer more services, develop cottage industries and increase exports. In these fields, the potential of small businesses has been reduced to one third of what it was before the crisis. So let us utilize resolution No 112 and provide small businesses with access to technical facilities and--this is extremely important--to local and recycled materials.

Centralism has led local authorities into a state of bureaucratic lethargy. In theory, the reform has extended their powers, but the red-tapism has remained,

and if someone from outside--e.g. the army--does not mobilize these bureaucrats, they will persist in their chaotic inertia, hoping for better days in the future.

Our real hope lies elsewhere--in democratized elections to people's councils. The most important task of these new councils is probably to get the local administration moving. For years people have been moaning that local and recycled materials are not being utilized. But who is to tackle this problem if not the respective gmina and voivodship authorities? Small businesses are eager to use these materials and local authorities should help them in this, giving them easier access of these materials and generally laying the basis for a growth of small businesses in their areas.

For example, people complain that services in the countryside are virtually non-existent. However, has anyone thought about suitable premises and accommodation for a tradesman who might want to settle there? This is the responsibility of the local authority. Similarly, the voivodship authorities should see that small businesses have access to rationed raw and intermediate materials.

Questions of this kind were raised frequently at the Twelfth Plenum of the Democratic Party (SD) Central Committee. Speakers stressed the importance of small businesses for the development of voivodships and gminas. They also pointed to the necessity of rebuilding state-run industry so that it would constitute an integral part of the small business network, as it once used to. On this last point, it is worth remembering the advice once given by foreign experts to the people running the country at the time--"It's all well and good that you're building up large-scale industry, but don't try to do everything on your own. Guarantee yourselves subcontractors and ancillary producers specializing--with your assistance--in various small components." The response to this was to incorporate local industry into the giant combines, which was the kiss of death for them. It was more convenient to import the necessary components from capitalist countries! This matter was brought up again at the SD CC Plenum with speakers criticizing the tendency in recent years for large enterprises to abandon their contacts with small businesses and demanding that these be re-instituted, with the latter specializing in the production of specific components. Thus, after 10 years, we are returning to square one.

These demands are fully justified since specialization is the best way of raising quality standards. Small businesses are incapable of resolving this problem on their own. Structural changes are necessary here, but so far there has been no sign of them. Small businesses need to enter into ancillary production agreements which would enable them to lower costs, specialize in the modern sense, develop the production of specific components and gain a foothold on foreign markets. This is what happens in the industrialized countries. In France, for instance, over 60 percent of small businesses are involved in exports as suppliers to major exporting firms.

It is also important to make a serious effort to tackle the problem of quality standards and revitalize the system of in-plant quality control, particularly in cooperative factories. Since this has practically died out, it is not at all surprising that the only quality controls people still trust are military inspections.

The lack of controls in general is strongly connected with the sharp decline in services. Increased costs have pushed up the prices of these services. As a result, self-employed tradesmen (and cooperatives as well) are unable to compete against moonlighters, who are now operating on an unprecedented scale, using stolen materials and stolen tools, and working in time stolen from their employers. In this situation it isn't surprising that many self-employed tradesmen are leaving the services sector, while these bungling freelancers are growing increasingly bold.

The supply of materials is a key problem in every kind of manufacturing, including small businesses and private trades. How the supply system should work has never been settled once and for all in Poland, and the current shortages, along with the rationing of raw and intermediate materials, has created new difficulties. Materials are distributed on the basis of a central balance-sheet of material reserves, which this year includes over 80 different products. However, part of these reserves are to be held separately, for supply to small businesses.

Credits are another important problem. A separate pool of credits for small businesses would also be welcome, since the production of consumer goods requires higher than average number of credits. Moreover, in accordance with the principle of self-financing, a single institution should specialize in providing credits to small businesses. The banking system would then help them to calculate profitability and program supplies of equipment and materials. This would create favorable conditions for economic competition and facilitate exports. The distribution of materials and equipment to small businesses should be carried out at the level of the gmina or voivodship.

In order to protect efficient firms and review the effects of particular decisions, special chambers of small business should be created. These would defend the interests of small businesses and at the same time protect the entire economy from bureaucratic abuse.

Finally, there is the problem of taxation, the problem of making tax policies more flexible regarding small businesses. This flexibility is absolutely essential--tax policies must take into account local conditions as regards the supply of materials, the availability of labor, and the needs of the local market. These policies should provide for suitable tax concessions while at the same time avoiding tax exemptions, which promote profiteering, get-rich-quick methods, and the practice of closing down firms in order to reopen them under a new name.

Satisfying all these demands is above all a question of good intentions. This could be done quickly, at no great expense, thus laying a sound basis for the development and modernization of small businesses. It could also double their share in total industrial output.

CSO: 2600/691



## PROFESSIONAL GROUP AFFIRMS PERSISTENCE OF CENTRALIZED MATERIALS RATIONING

Warsaw ZYCIE WARSZAWY in Polish 4-5 Feb 84 p 2

[PAP report]

[Text] The changes made at the beginning of this year in the rules governing the operation of the producer goods distribution system and the system used to place government orders were the main topics on the agenda of a meeting held on 3 February at the Business Organizations Club attached to the Warsaw Chapter of the Polish Economics Society.

A paper presented by Andrzej Zawalski, department director in the Office of Materials Management, formed the basis for the issues addressed during the open discussion period. He gave an account of the government's intentions associated with the recently made decisions and their legal dimensions. He stressed the importance of the abolition of fabricating and raw materials rationing on 1 January 1984. On the other hand, compulsory intermediary allocation will be retained for transactions involving approximately 100 categories of fabricating and raw materials. Compared to last year, this represents a 25 percent decrease in the amount of goods falling into this category; it is the intention of the national government that this ratio should be reduced even further. The rationing of some types of construction machinery and transportation vehicles will be continued.

The paper's author discussed the terms which govern entry into and the execution of contracts covering the delivery of materials subject to compulsory intermediary allocation, procedures for filing appeals and complaints, and the purpose of arbitration proceedings and the role of the Office of Materials Management in the review of these proceedings. Transactions involving non-rationed materials are now governed almost entirely by the provisions of civil law.

The questions which were raised and the statements which were made during the open discussion period dealt with, among other things, the possibility of selling materials to employees and also the composition and powers of the oversight teams working with sales organizations. An opinion was voiced to the effect that the hierarchy of priorities has not been defined as clearly and precisely as it should be. In the opinion of the discussants, the economic reform groundrules now being enforced have not yet put a stop to the



stockpiling of excessive inventories by plants or inefficiencies in the performance of centralized marketing agencies.

One of the principal conclusions drawn at this meeting was that, under present conditions, the centralized system of resources allocation is holding its own both as a result of prevailing conditions in the marketplace and also owing to long-standing, ingrained habits.

CSO: 2600/690

## BRIEFS

**PROPELLER SHAFT MANUFACTURING CAPACITY**--For more than a year technicians and engineers at the Nowotki Metallurgical Works in Ostrowiec (Kielce Voivodship) dedicated themselves to the task of designing and manufacturing the first built-up propeller shaft for marine power plants in the history of Polish metallurgy. The first finished, 11-meter long shaft weighs in at approximately 70 tons. At the beginning of March the Ostrowiec shaft will be sent to the Gdansk Shipyards where it will be run through sea trials. Tests conducted at the factory proved successful. Similar shafts which used to be purchased in the FRG or Japan cost approximately 300,000 dollars per copy. Back at the Ostrowiec works work has already begun on the manufacture of four more propeller shafts. [Text] [Warsaw RZECZPOSPOLITA in Polish 20 Feb 84 p 5]

**NEW LINE OF MARINE ENGINES**--In addition to building ships, the Lenin Shipyards in Gdansk also manufacture--and in no small quantities either--various kinds of propulsion systems, including, inter alia, boilers and marine engines. The Engine Building Division, which has been in operation for a quarter of a century, has so far built 101 main propulsion engines. Work is just now being finished on the assembly of engine number 102, which has a power rating of nearly 17,000 HP. This engine is slated to be installed in a refrigeration ship built for a Soviet shipowner. This division has also started work on the manufacture of parts for a new generation of engines which will carry the designation 10L 45 GFCA. These will be 10-cylinder engines with a combined power rating of 9,860 HP. One new feature of these engines is that they have been modified so that they will burn heavy-weight crude oil elements, which at the present time is the cheapest grade of marine fuel. The so-called "L" series engines will be installed in refrigerated transport ships being built at the Lenin Shipyards for the firm TRANSOCEAN. Orders have been placed for eight of these ships. [Text] [Warsaw TRYBUNA LUDU in Polish 22 Feb 84 p 1]

CSO: 2600/674

# NEED FOR MORE DEFINITE LONG TERM TRADE AGREEMENTS WITH USSR

Bucharest REVISTA ECONOMICA in Romanian No 6, 10 Feb 84 pp 13, 14, 17

[Article by F. Margereanu: "The USSR--The Principal Trading Partner of Romania"]

[Text] During the years of the creating of the new social system, Romania has developed broad economic and trade relations, relations of cooperation and collaboration with the Soviet Union, in the principal fields of the national economy.

The special place which the Soviet Union occupies in our foreign relations has been clearly emphasized by Comrade Nicolae Ceausescu, secretary general of the party and president of the country: "We are widely developing collaboration and cooperation with the socialist countries and, especially, with the neighboring socialist countries, giving special attention to relations with our great neighbor and friend--the Soviet Union."<sup>1</sup>

The common decision to continue to develop these relations was affirmed recently on the occasion of the visit to Romania of the USSR party and government delegation. In this regard, the Romanian-Soviet communique says: "Examining the evolution of Romanian-Soviet relations, the parties stressed their ascending course and reaffirmed their determination to intensify relations in the economic, technical-scientific and cultural spheres in the interest of the Romanian and Soviet peoples, and of the cause of peace and socialism."<sup>2</sup>

The priority orientation of our foreign economic relations toward the Soviet Union is based on the common character of social systems and of the basic goals of building socialism and communism, on relations of friendship and alliance, on the membership of the two countries in the Council for Mutual Economic Assistance and other international economic organizations. At the same time, this orientation is determined by a number of material factors, such as the great export-import potential of the Soviet economy, the rapid progress of Romanian industry and its presence in international trade, the broad possibilities for the two national economies to complement each other as well as their geographic proximity.

In accordance with this orientation, Romania has consistently taken action for the extension of bilateral economic relations with the Soviet Union. Thus, the USSR has continually occupied first place in Romania's foreign trade with a share which has averaged about 20 percent in the past 10 years.<sup>3</sup>

Table No 1

## Trade with the USSR and Its Share in Romania's Foreign Trade

	Indices of the volume of reciprocal trade (1970 equals 100)	Share in Romania's foreign trade (in percents)
1975	160	18.6
1980	312	17.1
1981	380	20.7
1982	336	21.5

(Note: Source of the data in tables 1 and 2: "Anuarul statistic al R.S.R." [Statistical Yearbook of the Socialist Republic of Romania; "Vneshnyaya Torgoviya S.S.S.R. (USSR Foreign Trade), a collection of statistics published by the "Finance and Statistics" Publishing House in Moscow. To achieve comparability of data, the calculation coefficients and commercial exchange rates in force during the respective years were applied.)

With the exception of 1982 (Footnote 4), the volume of trade with the USSR recorded a strong increase during the past decade. However, the potentials for this increase are far from being completely utilized in light of the fact that, at the same time, the foreign trade of each of the two countries increased to a greater extent. The total volume of Romanian foreign trade in 1982 was 4.2 times as great as in 1970 and the figure was 5.4 times as great for the USSR, compared to a 3.4-fold increase in reciprocal trade.

The importance of trade is determined not only by its volume but also by the structure of reciprocal deliveries and by the share of the different products and groups of products in the export and import of each country.

Thus, in Romania's export and import, machines and equipment represent an important group of commodities which account for 28 percent of the trade with the Soviet Union, a figure which is continually increasing. Imports from the USSR of energy equipment, equipment for mining operations, metallurgical equipment, various types of machines, aggregates and equipment for the chemical industry, for the pulp and paper industry, for light industry and the food industry, are of great importance for the implementation of some investment programs in Romania. Romania also purchases from the Soviet Union a considerable volume of cranes and other hoisting machines, as well as various types of construction equipment, agricultural machines, pumps and compressors. Railroad, automotive, naval and air transport means play an important part in the export activity of the USSR. Also, Romania imports a wide range of complex products of the Soviet precision mechanics and optics industry, as well as electronic equipment, apparatus and components, laboratory apparatus, and medical equipment and instruments.

In general, the list of exports from the USSR to Romania in this group of goods includes several hundred entries, which reflects both the high technical potential of Soviet industry and the interest shown by Romanian customers in products offered by the USSR.

Romania directs toward the USSR a large part of her exports in the field of machine building. The Soviet Union, having a large capacity for absorption and a constant need, represents a stable and strong market for Romanian exports of drilling equipment, railroad rolling stock, ships, electrotechnical equipment, machine tools, agricultural machines, etc in a nomenclature which includes dozens of entries. In the export of these types of machines and equipment, the Soviet Union is the principal foreign customer of Romanian industry.

An examination of the structure of the export of Romanian machines and equipment to the USSR reveals that it is limited to a relatively small number of items, 75-80 percent of which are traditional products, such as drilling equipment, railroad rolling stock, naval constructions etc. (Table No 2)

/Table No 2

Table No 2

Structure of Romanian Export of Machines and Equipment to the USSR

	1970	1975	1980	1982
Export of machines and equipment of which:	100	100	100	100
1. Installations, equipment, tools and accessories for the drilling and extraction of crude oil	9.3	14.0	25.0	29.8
2. Railroad rolling stock, mainly freight cars and tanks	5.7	28.6	6.8	19.3
3. Electronic equipment (electromotors and high-power transformers, automated circuit breakers, etc)	9.6	15.6	16.9	10.2
4. Ships and naval equipment	29.3	10.8	9.4	5.3
5. Agricultural machines, mainly trailers and sowers	6.6	11.2	7.5	5.6
6. Machine tools	2.4	3.3	8.3	9.4

The capacity of our socialist industry, constructed on the basis of a vast and long investment effort, as well as the active participation of Romania in specialization and cooperation in the framework of CEMA, open up much broader possibilities for deliveries in the fields of machine building and the electrotechnical and electronics industry. These possibilities are graphically illustrated by the continuing extension and diversification, during recent 5-year plans, of the export supply of Romania. There are more and more Romanian deliveries to foreign markets of trucks, buses, passenger cars, electric and diesel locomotives, measuring and control devices, computer technology and other products of the electronics industry, etc. The intensification and continual improvement of the activity of Romanian enterprises engaged in production and foreign trade, as well as of our organs charged with promoting the export of an ever-increasing number of products of the machine building, electrotechnical and electronics industries, provide justification for our belief that, in the future, such products will find an appropriate clientele from the ranks of Soviet customers.



A brief analysis of the group of machines and equipment involved in Romanian-Soviet trade shows the dimensions of reciprocal deliveries in this domain and their significance for the national economies of the two countries. Also, it can be said that, from the point of view of volume and share in the total trade, this group of products does not hold the place it should in trade between the two countries. In addition, statistical data show that reciprocal deliveries of machines and equipment play a noticeably greater role both in trade between Romania and other CEMA countries and in trade between the USSR and these countries.

Of course, in the spirit of the agreements and joint resolutions of the leaders of the party and state in both countries and through more persistent concern on the part of the Romanian and Soviet economic organizations for a better reciprocal knowledge of the industrial potential and the delivery possibilities, it would be possible to ensure, in the near future, an increase in the volume and the diversification of the nomenclature of trade in such products. The central planning organs and the economic ministries in both countries are called upon to take action in the same direction, both on the occasion of the signing and implementation of trade agreements for the last 2 years of the current 5-year plan and in the framework of the coordination of the national economic plans for the next 5-year plan and the signing of long term agreements and conventions for specialization and cooperation in production.

The consistent implementation, by both sides, of the long term program for the development of specialization and cooperation in production between Romania and the USSR, signed in 1980, as well as the sub-programs by branches drawn up on the basis of this program will certainly contribute to the achievement of this objective.

Another important group of goods--with broad implications for reciprocal trade--is represented by fuels, raw materials, food and other basic products. In the framework of this group, Romania imports from the USSR large quantities of iron ore, as well as other products, such as coke, coal, pig iron, iron alloys, rolled goods, non-ferrous ores, industrial paper and cardboards, cotton.

Recently, an increasingly large part of the deliveries of such products is being carried out in the framework of long term agreements signed with the USSR on the participation of Romania in the investment effort for utilizing some natural resources in the USSR.<sup>5</sup> On this basis, Soviet deliveries of some traditional products (iron ore, asbestos, iron alloys) are maintained or increased and deliveries of new products in reciprocal trade (pulp, methane gas, electric power) will begin during the current 5-year plan.

The deliveries of crude oil and petroleum products have a special situation in reciprocal trade. For a long time, Romania exported large quantities of such products on the basis of and under conditions of long term trade agreements and annual protocols. The deliveries of petroleum products continued until the 1971-1975 5-year plan.<sup>6</sup>

During the same period, Romania, taking into consideration the increase in processing capacities during the course of socialist industrialization, began to import crude oil while the Soviet Union became a big exporter of crude oil.<sup>7</sup>

Later, some years, agreements were reached in regard to certain crude oil deliveries from the USSR to Romania. These imports were carried out outside of the long term trade agreements and annual protocols, on the basis of separate trade operations.

Such operations, also carried out with other countries, consist of mutually connected deliveries of goods with values calculated in convertible currency and at the current prices on the world market. In the framework of this trade, deliveries of crude oil are paid for by deliveries of products with a high economic value, mainly agricultural and food products. In addition to the fact that such operations are carried out under conditions other than those specified in the governmental trade agreements, and not on the basis of clearing in transferrable rubles stipulated in these agreements, the operations also have an occasional character and fluctuate according to conditions on the international commodities markets.

In regard to Romania's export of goods from the raw materials and basic products group, special mention should be made of deliveries of steel pipes and plates, aluminum, soda products, carbide, basic chemical products, timber, parquet and other wood products, paper and cardboard, synthetic yarns and fibers. Also, Romania exports large quantities of agricultural and food raw products, which represent valuable raw material for the USSR processing industry.

The immense natural resources of the Soviet Union, its great export capabilities in the field of fuels, energy and raw materials, reflected in USSR trade with other countries, offer a real opportunity for a future increase in trade in such products in trade dealings with Romania, too. To achieve this goal, Romania, which is in favor of the consistent establishment of the principle of mutual advantage as the basis of economic relations, is ready to participate, in accordance with the ever-increasing possibilities of our industry, in the construction of new economic projects in the USSR, in order to utilize natural resources and increase exports to participating countries.<sup>8</sup>

Finally, the third group of goods, consumer goods, reflects the effort of Romania to balance overall trade with deliveries of products which are of interest to the national economy of the USSR. In particular, it is a question of the delivery of large quantities of textiles, carpets, clothing, knitwear, gloves and other leather goods, leather and synthetic shoes, furniture, various types of consumer goods. All these products are intended to satisfy the demands of a wide circle of consumers in the USSR.

At the same time, in order to diversify the supply of goods intended for the domestic market, Romania imports refrigerators, bicycles, clocks, photographic apparatus, intended to satisfy the needs for some products which are not manufactured in the country, such as electric razors, cameras, etc.

In light of the fact that during the first 3 years of the present 5-year plan, trade with the USSR stayed at the same level or even decreased, it should be expected that in the coming years firm action will be taken to increase and diversify reciprocal trade.<sup>9</sup>

The trade protocol for 1984 signed by the two countries on 30 December 1983 represents a step forward in this direction. From the point of view of value,

the reciprocal deliveries called for in this protocol are at approximately the same level as the trade scheduled for 1984 in the long-term trade agreement. Considering the smaller achievements of the previous year, the full implementation of this agreement could ensure a significant increase compared to 1983.<sup>10</sup>

Also, in regard to the nomenclature and structure of goods, the trade protocol for 1984 corresponds to the provisions of the long term agreement. It includes, for the principal types of fuels, raw materials and other basic products, both for export and import, deliveries of items on the nomenclature, at levels similar to those of previous years.

The trade protocol for 1984 includes, just like the 1983 protocol, deliveries of methane gas from the USSR, on the basis of agreements signed earlier, the agreement on cooperation in the utilization of the Orenburg gas deposits (1976) and agreement on collaboration in the field of energy-intensive products (1979), and calls for the continuation of deliveries of electric power from the USSR, needed to compensate for the electric power consumed in Romania in the production of carbide which is exported to the USSR. Like last year's protocol, the trade protocol for 1984 calls for increased quantities of energy coal to be exported by the USSR.

In addition to the reciprocal trade specified in the trade protocol, on the basis of an agreement concluded in 1983 the USSR will be delivering to Romania certain quantities of crude oil under the same conditions as in previous years, that is, in the framework of a barter operation, calculated in convertible currency. Both the quantities and the conditions for carrying out these deliveries differ from the practice of trade between the USSR and other CEMA countries. Therefore, it would seem natural that, in accordance with the established manner of carrying on trade among the CEMA countries, the export of crude oil from the USSR to Romania should be included in long term governmental agreements which would ensure the stability of the deliveries as well as their implementation in the framework of general exchanges of goods and of the trade and payments agreements in force, on mutually advantageous bases.

The implementation of the provisions of the trade protocol and of other agreements concluded for 1984 is intended to give a new incentive to trade with the USSR which is able to respond to the demands for the continued extension of collaboration between the two countries, on multiple levels. At the same time, the concretization of the negotiations which are taking place at present between the organizations and ministries in both countries for the concluding of new agreements for cooperation and specialization in numerous fields of machine-building, electrotechnics and electronics, and in other branches of the national economy will certainly provide new sources for increasing trade, even during 1984, and for a substantial over-fulfillment of the provisions of the long term trade agreement for the 1981-1985 period. All these things will create the necessary conditions for placing economic relations in the next 5-year plan on much broader bases, for ensuring a steady development of trade, for raising reciprocal trade to a level which will better correspond to the needs and the potentials of the national economies of the two countries.

Along with the development of bilateral relations, Romania gives special attention to collaboration within CEMA, to the increasingly more intensive participation of Romanian economic organizations in multilateral cooperation and specialization in production, on the basis of the special long-term collaboration programs and other cooperation programs drawn up in the Council [for Mutual Economic Assistance]. Conclusive evidence of this fact is the signing by Romania of about 300 multilateral agreements and conventions on economic cooperation, specialization in production, and technical-scientific collaboration in the realization of new products in the branches of machine-building, electrical engineering and electronics, in the chemical industry and in other economic branches.

It should be noted that a large number of these agreements and accords, more than 140, deal with the machine-building industry, a fact which indicates the increasingly more intensive participation of Romania in the specialization of the CEMA countries in the production of this branch. In the first 2 years of the current 5-year plan, Romanian deliveries of machines and equipment, under agreements for specialization of production, increased more than two-fold so that, in 1982, they represented almost 40 percent of the export of machines and equipment among CEMA countries.

At the same time, it should be emphasized that Romania participates in the activity of all the international economic organizations created by the socialist countries in different fields of material production and has expressed interest in being a signatory of an overwhelming majority of the multilateral agreements drawn up within CEMA for the construction, with joint efforts, of economic projects in the USSR and in other member countries or for the execution of other actions for cooperation and specialization in production. Romania is an active participant in the process of examining possibilities for extending this cooperation into new economic fields, in the framework of the projects which are being carried out at the present time on the basis of the joint programs and resolutions adopted by the CEMA organs.

The positive developments in regard to the inclusion of Romanian industry in the division of labor among the CEMA countries, the continued interest of Romania in the activity of CEMA and of other international economic organizations, the insistence of the Romanian representatives on the intensification of multilateral negotiations fully correspond to the resolutions adopted by our party and state for the extension of relations of collaboration and cooperation with all the socialist countries, especially the neighboring countries.

In this favorable framework, bilateral relations with the USSR can and must occupy, in the future too, the principal place in Romania's foreign trade and register continued development through the solution, by joint efforts, of problems of mutual interest, for the good of the Romanian and Soviet peoples, the building of socialism and communism in our countries, and for international collaboration and peace.



#### FOOTNOTES

1. Nicolae Ceausescu, "Cuvintare la Congresul al XXVI-lea al P.C.U.S.," Speech at the 26th CPSU Congress, SCINTEIA, 25 Feb 81.
2. Romanian-Soviet communique on the visit of the USSR party and government delegation to the Socialist Republic of Romania, SCINTEIA, 2 Feb 84.
3. Romania occupies 12th to 13th place in the foreign trade of the USSR, with a share of about 3 percent. From the point of view of the volume of trade with the USSR in 1982, Romania--with a volume of 3.1 billion rubles--comes behind a number of countries whose economic potential is smaller than or close to that of Romania such as: Bulgaria (9.1 billion rubles), Hungary (7.4), Cuba (5.8), Yugoslavia (5.3), Finland (5.2) etc. ("Vneshnyaya Torgoviya S.S.S.R. v 1982" [USSR Foreign Trade in 1982], Statistical Council, Moscow, "Finance and Statistics" Publishing House).
4. The drop in trade in 1982 is explained by the reduction of Soviet crude oil deliveries, which were taking place outside of the trade protocol, in the framework of operations based on calculation in convertible currencies. This, the statistical collection "USSR Foreign Trade in 1982" (page 164) states that the USSR exported crude oil worth 66.3 million rubles to Romania in 1982 compared to 523.6 million rubles the year before.
5. The achievement of such agreements represents an example of fruitful, mutually advantageous collaboration in the solution of important problems which are of concern to both countries. On the one hand, Romania ensures for itself, through this method, long-term deliveries of products which are of major importance for the national economy, and, on the other hand, it makes it easier for the Soviet Union to place its great natural resources in the economic circuit, taking into consideration the fact that, in these cases, the participating country delivers the goods on credit or makes available the necessary convertible currency, with reimbursement in the product obtained, in installments, over a long period of time, and, as a rule, with interest lower than the rates on international markets.
6. Romanian deliveries of crude oil, gasoline and other petroleum products, carried out over a period of many years, reached levels of 2.5-3 million or even 4 million tons a year. In 1975, Romania delivered 492,000 tons of petroleum products to the Soviet Union ("USSR Foreign Trade").
7. In the 1976-1980 5-year plan, the USSR had an annual export of about 150 million tons of crude oil and petroleum products, including more than 75 million tons to the CEMA countries, on the basis of bilateral trade agreements ("USSR Foreign Trade").
8. Romania's position on collaboration in the field of fuels, energy and raw materials and her willingness to participate in the efforts required in solving these problems for all CEMA countries have been stated, repeatedly, in CEMA meetings. This position was restated with particular clarity in the speech of Comrade Constantin Dascalescu, prime minister of the Romanian Government, at the 1983 session of the Council (SCINTEIA, 20 Oct 83).



9. The total trade (including the import of crude oil on the basis of separate trade operations) amounted to 3.5 billion rubles in 1981, 3.1 billion rubles in 1982 and the estimate for 1983 is 3.3 billion rubles ("USSR Foreign Trade for 1981-1982" and the opinion that there will be a 5-percent increase in 1983 over 1982, according to the report of the USSR trade representative in Romania at a press conference held in Bucharest on the occasion of the signing of the 1984 trade protocol between the USSR and Romania).
10. On the basis of the report mentioned above, it is believed that an increase of 12-15 percent is possible, if the deliveries of crude oil and the barter arrangements, which take place outside the trade protocol, are taken into consideration.

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DRAGAN DISCUSSES OUTLOOK FOR ECONOMIC STABILIZATION

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 28-30 Jan 84 p 1, 11

[Interview with Zvone Dragan, vice president of the Federal Executive Council, by Zdravka Cicmirko-Pokrajacic; place and date not given]

[Text] [Question] What else has remained for the Federal Executive Council [FEC] and other organizations to do, what measures and efforts are needed to implement the plans and resolutions for 1984?

[Answer] The FEC and federal agencies and organizations, such as the [economic] chamber system, general associations, interest communities, banks, and republics and provinces as well, must still do quite a bit to complete all the mechanisms and measures for this year's economic policy. Specifically we know that along with the resolution, the Yugoslav Assembly approved numerous accompanying documents and regulations, and that several other acts remained half-completed and unsaid. Certain matters must be resolved urgently, by the end of March.

First, we must get everything in order in the financial system and its mechanisms, everything related to cash flow of the economy and the banks, and to the financial consolidation in the economy, for reprogramming internal indebtedness, for stewardship over operating capital, and so on. In addition to that we must approve or complete supplemental measures in the area of price policy and system, consumption and income distribution, in order to prepare better for the period after price freezing is lifted. It is anticipated that prices will be frozen for 6 months at most. Our intention, however, is to do everything and to rescind that decision markedly sooner, naturally, with the necessary prerequisites.

The FEC still needs to draw up some guidelines in connection with implementation of the supplemented Law on Foreign Exchange and Joint Foreign Exchange Policy. In this area, something has already been done by the Yugoslav Interest Community for Economic Relations With Foreign Countries, but quite a bit of that must be taken care of by the economic chamber system. Further, there are suggestions for changes and supplements to certain important systemic laws, for example, in the area of the credit and monetary system, the area of federal financing, the accounting system, and similar areas. The bulk of that should be completed and approved and put in force by the end of February, with the rest in the legislative process.

[Question] It has been said that the Resolution on Price Freezing was passed in a hurry, that it was incomplete. Could the FEC fail to see the effects of its decision? And finally, where can we get the discipline to see it through?

[Answer] That decision was approved in a hurry, the new year was approaching and a clear answer was needed to the question as to what price policy would be followed this year. Thus it is obvious that the responsible agencies, as well as the Price Office, should have prepared a more developed and complete way for approving and implementing that decision. Consequently, some things are now being cleared up. Naturally, it would be better if we had cleared up everything before, coordinated, specified and brought everything to perfection and absolute precision. But even if the resolution were perfect, 100 percent with all practical instrumentation, rationales and the like, it is clear that there would still be various pressures to change the resolution, or to do something different and in that manner, attempt to avoid price freezing. It is not correct that everything we are doing now stems from the resolution being imperfect, or from varying interpretations of it, or similar matters, for even where the resolution is completely clear, there are attempts to overturn or avoid it. In fact, the truth is both the one and the other.

Naturally, price freezing was not anticipated in the foundations for this year's economic policy. Last year, however, certain resolutions in the economic system and economic policy were not adapted or implemented according to the requirements of the long-range program for economic stabilization. That situation carried over to this year. When some time between 20 and 25 December we considered the proposal for general price freezing, even though there were certain vacillations and arguments pro and con, the opinion prevailed that prices should be frozen in order most effectively to partially avoid the most glaring disparities and preserve better parity relationships than were present before price corrections, which were made before price freezing. When everything is taken into account, it is clear that the Resolution on Price Freezing was forced largely by circumstances, in the given situation, in order to get the essential minimal chance to catch our breath in all operations that were in the course of being resolved and for all resolutions that were being prepared and completed.

And so the resolution was approved, even though we are all conscious of the fact, and of the bitter experiences of the past, that a general price freeze, i.e., a drastic administrative measure, does not result in anything essential nor resolve anything. On the contrary, the situation can be worse if these periods are not used effectively. Thus, this "time out" must be utilized at all levels, not only to begin the process of practical and successful implementation of what had been approved in economic policy at the end of last year in the Yugoslav Assembly, but also in the meantime to complete and put into operation supplemental complementary measures.

Considering the truly difficult economic situation, this time we dare not slip, for if in earlier periods there was some space for maneuvering in "hot and cold" pricing, we have now totally used up that space. There is no more time.

[Question] The anti-inflation program is a component part of the long-range economic stabilization program, yet it has been the least realized aspect and the most criticized?

[Answer] The anti-inflation program has given a qualitative orientation as to how, under given circumstances, it should be implemented in order gradually to reduce the inflation rate in Yugoslavia. Yet it is obvious that the tempo and quality of the implementation of the stabilization program, and the anti-inflation program itself, which has been in effect for a year and a half, have been weaker and less intensive than expected when the anti-inflation program was approved in mid-1982. If we add external factors to that, then it is clear that the projections as to how we would quickly and effectively reduce the inflation rate so that by as early as 1985 it would fall below 10 percent, was quite an optimistic notion for our conditions and the situation that was encountered. That projection also confirmed that we Yugoslavs are better with words than we are with deeds.

#### Swollen Credit Relationships

[Question] The real interest rate policy is another topic. Does it not seem to you that in a situation of high inflation and a stymied economy, that policy forces some parts of the economy into even greater woes by forcing them to operate with expensive money?

[Answer] The economic stabilization program anticipated that we would gradually introduce a real interest rate in Yugoslavia, over a period of 2 to 3 years, as one of the prerequisites for economically realistic valuing of all production factors. Precisely because of cheap money, we fell into the extreme credit relationships in Yugoslavia today, with swollen and absolutely hypertrophied credit and an unreal import policy, due to the unrealistic dinar exchange rate in import dealings. Naturally, a real interest rate is only one of the economic instruments and pressures on all those who deal with money and incur debts, to incur reasonable debts. It is a reward for those who save their money and have savings accounts.

I fully agree with the position that it is impossible to implement a real interest policy overnight, particularly now, with the current high rate of inflation and the dominant credit relationship for financing simple and expanded production. For that reason, we must move gradually, in doses, but we dare not retreat from the aim of achieving a real interest rate as soon as possible.

The economy says only that that is its expense load and that it is a blow to the economy. It forgets that we are introducing steadily higher and more stimulating passive interest rates, interest on deposits, and not only active interest on marketing. The transfer process within the economy is unavoidable from the party who has deposits to the one who has only credits. It is essential that the real interest policy be tied directly to effective reduction of the inflation rate on all other bases. In a developmental policy that conscientiously respects economic principles, it is impossible to restructure the economy if economic policy and the economic system,

or its mechanisms, from the foreign exchange system through the price policy and system all the way to the money and credit system, do not stimulate that part of the economy that is able to extract us from this rather complex economic situation.

#### It Is Irrational To Say Just 46 Percent

[Question] Is it possible for labor organizations to provide sufficient production for export with 45.9 percent of the foreign exchange?

[Answer] I think it is possible, naturally, not all in a linear manner--that would not be desirable. Some will have that average of 46 percent while others will have less. The differentiation process comes into play that has been built into the foreign exchange policy and other documents on foreign exchange operations and export policy.

Naturally, 46 percent will not be enough for some. To be precise, everything depends on how much is needed to pay fixed and obligatory costs, for those are the first priority and the amount remaining after that for an enterprise's own production needs and the imports will vary widely. Another consideration is how much use will be made of goods credits from foreign countries for current production and exports. Naturally, we must further simplify the procedure, make it more rational and elastic to facilitate acquisition and use of goods credits from the convertible foreign exchange area. I would remind you that the task as a whole has not been completed, and that the Law on Use of Goods Credits remains to be revised.

It is irrational to talk of that 46 percent, more to some and less to others, and the like. It is essential for those who will export more to have greater foreign exchange availability. We must carry out a process of restructuring the export economy to favor those branches that will provide more goods and services exports, that have greater domestic resources, greater possibilities and strengths to achieve larger export levels, and that are less dependent on imports.

[Question] Does that mean that we have finally begun to produce for export, for a definite buyer?

[Answer] I think that is underway and ever more obvious, although last year there was still quite a bit of irrational exports and exports "at any cost", which naturally is unacceptable. With exports too, we must follow a policy of greater selectivity and have more rational objectives.

[Question] According to some indices, it appears that industrial production will not meet planned parameters.

[Answer] We gave a projection of industrial production for the year, not by quarters, and I think that it should not be significantly more than 3 percent below quota. It is possible that in the first quarter it will be somewhat lower than anticipated, due to problems in supply and production, energy supplies, etc. We cannot achieve a new increase in exports through new



increments in industrial production alone; rather, we need further restructuring of existing goods stockpiles and greater shipments to foreign markets. After all, our industry is the way it is, with its minuses and pluses. We cannot have some other, completely different, industry now. According to the quantity of industrial installations, we have quite a bit, but we also have a lot of improperly installed facilities, in the wrong place, following the wrong developmental conception. Consequently, we should not expect any spectacular results in the course of several years, in the sense of general changes in the structure of the economy and qualitative factors of operation. This is just the beginning of the year, and it is very difficult to give any sort of prognoses as to whether industrial production will meet its plans or not.

#### Extremely Varied Interests

[Question] It is our impression that associated labor has been more active than ever before in the discussions of the resolution for this year, but all of the things proposed by the basic organizations failed to get into the final resolution. To be specific, they included greater production, foreign exchange availability, debt relief, and primary distribution. Perhaps all of those factors are covered in other documents and in practice?

[Answer] Not everything suggested was adopted, nor could it all be adopted. The same was true for the proposals of republics and provinces. All proposals were not alike, or along the same lines. Some of them went into the economic stabilization program and others did not. Interests vary greatly, and requests and demands are one thing, while the criteria for adopting them are our realistic possibilities. Many of the things proposed exceed our realistic financial balance possibilities in foreign exchange, dinar, and goods. We had to perform a general selective process, and we will have to do so for years in order to truly proceed within the limits of realistic possibilities. I think that we have made too many compromises in diverging from the economic stabilization program, with everything that we have agreed to in preparing to approve the resolution and other acts.

[Question] Are we moving toward a unified Yugoslav market, and when will we achieve a foreign exchange market?

[Answer] We are moving, but very slowly, in the direction of a unified Yugoslav market for all categories, e.g., goods, money, and foreign exchange. Coordinating the Yugoslav economic system to the economic stabilization program should stimulate that process. More respect for economic criteria and economic principles should also strengthen the cohesion of the unity of the Yugoslav market.

As far as a foreign exchange market is concerned, the first step will be made when we complete the procedure for establishing unified criteria for foreign exchange operations. That means that in March or April the process of establishing a unified Yugoslav foreign exchange market should begin. The first phase will be rather modest in scope.

[Question] How are the negotiations with the International Monetary Fund [IMF] proceeding?

[Answer] The negotiations with the IMF and with governments are proceeding. So far, quite a few questions have been cleared up with all foreign partners. We are striving to complete those negotiations as soon as possible, so that this year we can set all balances, particularly in convertible foreign exchange transactions with foreign countries, followed naturally by other accounts, including finances, production, imports, and exports. We hope that we will complete that job in February, perhaps by mid-March at the latest. If the negotiations are finished by that time, it will mark great progress over last year, when we were involved in those negotiations for more than 9 months. The negotiating process, after all, is not so simple.

[Question] Comrade Vice President, what if the negotiations with the IMF are not successful?

[Answer] What will happen if they are not? If no agreement is reached with the IMF, the FEC has already prepared a program about which it regularly informs the Assembly. That would mean that in such a case, we would have to rely on our own resources, naturally, with great effort and significant sacrifices. In such a situation, our country would be able to remain as it is, as FEC President Milka Planinc pointed out, firm and stable. We must not harbor any illusions, for whether or not we reach an agreement with the IMF, the burden of overcoming the current economic situation must first of all fall on us alone, jointly!

[Insets]: We finished 1983 with a moderate growth in employment of about 2 percent, which, particularly under the circumstances of declining domestic consumption, contributed to an easing of social difficulties, even though it brought a 1.2 percent decrease in industrial labor productivity.

In implementing the economic stabilization policy in 1983, we took a radical approach to the matter of domestic consumption, with the result that all forms of consumption fell again in real terms. According to the latest estimates, real personal income declined by about 12 percent. Declines were also registered in real capital investments, also 12 percent, as well as general and communal consumption. At the Yugoslav level of development, that represents great effort, but at the same time, it shows an essential turn in the direction of greater savings and creation of conditions for increased real domestic capital accumulation.

The inflation rate in 1983 amounted to 58 percent measured by the increase in retail prices.

Our most significant results in 1983 were achieved without doubt in the changed balance of payments situation of the country. The current payment deficit with convertible foreign exchange countries, which amounted to 3.4 billion in 1979, was transformed into an estimated 100 million dollar surplus for 1983. These results came through increasing exports, especially to industrially developed countries, by 28 percent, along with more rational imports.

Through the support our economic stabilization program received by the special financing and credit arrangements concluded during 1983, and thanks to great efforts within the country, we succeeded in overcoming the most acute problems of external cash flow. We were able to pay more than 3 billion dollars in interest and part of the principal of our foreign debt from earned foreign exchange income.

We were also able to achieve at least a minimal growth in industrial production of 1.3 percent by use of special financing and credit arrangements and, first of all, by beginning the process of a policy of reliance on our own strengths and use of domestic resources and potential. The relative decline in agricultural production did not mark a failure, if we consider last year's high basis for comparison.

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